

March Fund Performance & Market Commentary

The Delbrook Resource Opportunities Fund continued its strong performance during the month of March, gaining 10.0% (net) vs. a -5.9% decline in the S&P Metals and Mining ETF, the Fund's closest benchmark. The cumulative first quarter 2017 return for the Fund was +26.9% vs. a +0.2% return for the benchmark. The majority of the Fund's monthly performance was attributable to long positions, which returned +9.7%, while short positions returned +1.5%.

Entering March, the Fund reduced exposure to precious metals in anticipation of a rate increase by the US Federal Reserve. In February, we had highlighted our belief that the market was under pricing the probability of a March rate increase, and therefore that precious metals were at risk of declining. We adjusted the portfolio accordingly, slashing long exposure and adding to short exposure. This decision resulted in precious metals being the largest positive contributor to the Fund's performance during the first quarter, both long and short.

Looking forward, we see the precious metals space as volatile, with short term bias to the upside being tempered by a likely rate increase by the Federal Reserve in June. We note that market expectations for a rate increase in June currently stands at 56.7%, a bit low in our opinion. At this time, we believe the pattern identified in February will repeat itself in May and that the current strength in precious metals will be tempered as the speculation around a June hike by the Federal Reserve becomes more topical. This will obviously be dependent on a series of upcoming economic data points, which we will be carefully watching.

Base metals continue to be in favour selectively. However, copper has lost some of its short-term appeal given resolutions to labour issues at large mines in Chile and a temporary truce between Freeport-McMoRan and the government of Indonesia over exports from the Grasberg mine. We are still bullish on the copper space, but believe the short term volatile upswing in prices has been delayed as supply has become more secure, at least temporarily. We are most bullish on zinc, a metal which we can chart a path towards multi-year deficits, which the market has only begun to price in. Zinc prices at current levels provide limited incentive for greenfield project development, therefore we believe the market could move materially higher in late 2017, as demand/supply dynamics materialize.

We continue to see bulk commodities, specifically coal and iron ore as areas to take profits. Australian coal prices surged in early April on supply side disruptions as a consequence of Cyclone Debbie's direct assault on Queensland. However, the aftermath appears to be manageable and supply should return to normal within a month. Combined with significant production from China, we believe prices for met coal will decline significantly as the second quarter progresses.

The activist campaign we referenced in earlier newsletters concluded on March 30th and resulted in the replacement of the entire Board of Directors of Rapier Gold with the nominees brought forward by Delbrook. We are gratified to have led the first dissident shareholder victory in Canada since 2015 and believe the recently announced review of strategic alternatives by Rapier's new board is the appropriate decision which should maximize value for all shareholders.

As always, please contact our office at 604.229.1450 with any questions.

Sincerely,

Matthew Zabloski

